

**REGULAR STATE BANKING BOARD MEETING
OFFICE OF THE COMMISSIONER
DEPARTMENT OF FINANCIAL INSTITUTIONS
2000 SCHAFFER STREET, SUITE G
BISMARCK, NORTH DAKOTA**

July 10, 2003

The regular meeting of the State Banking Board was held in the Office of the Commissioner, Department of Financial Institutions, 2000 Schaffer Street, Suite G, Bismarck, North Dakota. Chairman Karsky called the meeting to order at 9:02 a.m., Thursday, July 10, 2003.

MEMBERS PRESENT: Timothy J. Karsky, Chairman
Ron Braseth, Member
Bill Daniel, Member
Launa Moldenhauer, Member
Roger Monson, Member
Gary Petersen, Member
Terry Zeltinger, Member

MEMBERS ABSENT: None

ALSO PRESENT: Robert J. Entringer, Assistant Commissioner
Jeff Jungman, Chief Examiner – Banks
Scott Miller, Assistant Attorney General
Dale Pahlke, Dakota Community Bank
Stan Sayler, Dakota Community Bank

APPROVAL OF MINUTES

Chairman Karsky indicated the Board received copies of the minutes of the regular meeting held on May 8, 2003, and the special meetings held on June 25, 2003, and July 2, 2003. **It was moved by Member Monson, seconded by Member Zeltinger, and carried by voice vote to dispense with the reading of the minutes and approve the minutes as published.**

DAKOTA COMMUNITY BANK, HEBRON, APPLICATION TO ESTABLISH A FACILITY AT 108 SOUTH MAIN AVENUE, GLEN ULLIN

Assistant Commissioner Entringer reviewed his July 2, 2003, Memorandum, which indicates the application by Dakota Community Bank, Hebron, to establish a facility at 108 South Main Avenue, Glen Ullin, was received on April 29, 2003, and published pursuant to the North Dakota Administrative Code in the *Mandan News* on May 8, 2003, with the comment period ending May 23, 2003. No comments were received as of the date of the Memorandum, and direct notice was also provided to three area banks.

The statutory criteria as found in North Dakota Century Code Section 6-03-13.3 were reviewed with the Board. The first criterion dealing with convenience, needs, and welfare of the people and community area served noted that the applicant conducted an internal survey and found that 193 of its customers had Glen Ullin addresses, 60 of whom also had loan accounts. The applicant indicated they would be better able to serve their Glen Ullin customers, as well as any new customers that they may obtain, with this proposed facility. The proposed facility would be more convenient for their existing customers. The applicant notes the building will be partially occupied by the affiliated insurance agency which would also provide an additional service to their customers.

The second criterion relates to the financial strength of the bank in relation to the cost of establishing and maintaining such separate facility. The applicant estimates the cost to construct the facility at \$90,000, and an additional \$50,000 is estimated for furniture and fixtures. The projections for the proposed facility indicate marginal profitability in the third year of operation and the assumptions used in the bank's projections compare favorably with the March 31, 2003, Uniform Bank Performance Report. The three year projection for the entire bank indicates that capital ratios are maintained at or above 8% throughout the projection period ending 2005. The Department feels the applicant has demonstrated financial strength in relation to the cost of establishing and maintaining the facility.

The third criterion is whether other banks would be seriously injured by approval of the application. The applicant indicates they do not believe approval of the application would have serious negative impact on the Bank of Glen Ullin, since the applicant already has a large market share of customers in the area and are expanding to provide services to these existing customers.

Chairman Karsky asked President Dale Pahlke if he had any comments to offer to the Board in support of the application. President Pahlke indicated the current building where the insurance agency was located was in a state of disrepair and the location where they have constructed the new building is a better location for the customers located south and east of Glen Ullin. President Pahlke indicated the facility would not have any loan officers, but they would be training their employees to take payments or make advances on loans. Chairman Karsky inquired as to a projected opening date, and President Pahlke indicated they anticipate opening within two weeks.

Assistant Commissioner Entringer indicated the Department feels the applicant has demonstrated they have met the statutory criteria; there is a need; the bank has the financial strength to maintain the facility; no other bank has opposed the application as of the date of his Memorandum; therefore, the Department recommends approval of the application.

It was moved by Member Braseth, seconded by Member Petersen, and unanimously carried to approve the application by Dakota Community Bank, Hebron, to establish a facility at 108 South Main Avenue, Glen Ullin, and to approve the proposed Order.

DAKOTA COMMUNITY BANK, HEBRON, APPLICATION TO ESTABLISH A FACILITY AT LOTS 13-23, BLOCK 1, DICKINSON

Assistant Commissioner Entringer reviewed his Memorandum with the Board, noting the original application was received on June 6, 2003, and was published pursuant to North Dakota Administrative Code Section 13-02-05-05.1 in the *Dickinson Press* on June 10, 2003, in the *Mandan News* on June 19, 2003. The amended application was received on June 23, 2003. The comment period ultimately did not end until July 5, 2003, because of a misunderstanding the bank had regarding the FDIC publication rules. Direct notice was also sent to 14 area banks and facilities. The Department did not receive any comments as of the date of this Memorandum, nor were any requests for copies of the application received.

North Dakota Century Code Section 6-03-13.3 sets forth the statutory criteria the Board must consider to determine whether an application should be approved. The first criterion deals with convenience, needs, and welfare of the people and community area served. The applicant addressed this criterion by

noting that the proposed location is in the heart of the downtown commercial district and is very accessible. The growth the applicant has experienced at their existing facility in Dickinson is also reason for applying for this location, as they feel a need to better serve existing customers by expanding into the downtown area. The applicant indicates they intend to move their mortgage loan department to the proposed location due to being crowded at the present facility.

The second criterion relates to the financial strength of the bank in relation to the cost of establishing and maintaining such separate facility. The applicant indicates the construction of the facility is estimated to be \$1,050,000, which includes the land, and an estimated \$200,000 for furniture and fixtures. The estimated deposit and loan volume appear to be fairly conservative; however, the projections indicate the facility to be marginally profitable in the third year of operation. The assumptions used in the projections compare favorably to the bank's March 31, 2003, Uniform Bank Performance Report. The three year projection for the entire bank indicates the capital ratios will be maintained at or above 8% throughout 2005. Although the estimated net loss for the first year of operation, assuming an opening date of July 1, 2004, does not appear to significantly impact the capital ratio for the bank. The fixed asset investment is estimated to be 42.95% using month end May numbers and including the Glen Ullin facility which was just approved by the State Banking Board, so the bank would remain within the fixed asset limitation set by statute. The Department feels the applicant has demonstrated financial strength in relation to the cost of establishing and maintaining this facility.

The third criterion is whether other banks would be seriously injured by approval of the application. The applicant indicates they do not believe approval of the application would have serious negative impact on the existing Dickinson banks based on the forecast of substantial growth in the area and the need for more financial institutions in the market. Proposed management of the facility is President Dale Pahlke.

Chairman Karsky asked President Pahlke if he had any comments in support of the application. President Pahlke indicated the bank has outgrown its present facility, which has only 2,500 square feet on the main floor and approximately 300 square feet on the second floor. President Pahlke indicated they have two mortgage loan officers sharing an office and felt it was a better decision to construct a new location. This location would be on Villard and Highway 22, providing better access for the bank's downtown and south side customers.

Member Zeltinger asked the approximate size of the Dickinson location, and President Pahlke indicated the total assets of Dickinson are \$25.5 million.

Chairman Karsky referred to President Pahlke being listed as the manager for this facility as well as the Glen Ullin and Lincoln facilities, and asked how often he visits each of these locations. President Pahlke indicated they do have people on site that act in management capacities, but they list himself as the manager. President Pahlke stated either he or Stan Sayler travel to each location at least once a week, with the exception of New Leipzig. He stated that Mr. Sayler probably travels more frequently; however, they are in frequent telephone contact with each location on a daily basis.

It was moved by Member Petersen, seconded by Member Monson, and unanimously carried to approve the application by Dakota Community Bank, Hebron, to establish a facility at Lots 13-23, Block 1, Dickinson, and to approve the proposed Order.

Paul Bakkum joined the meeting at 9:20 a.m., and Dana Ereth joined the meeting via telephone at 9:32 a.m.

NORTHLAND FINANCIAL, STEELE, APPLICATION TO ESTABLISH A FACILITY AT 207 FRONT AVENUE, BISMARCK

Chairman Karsky reviewed his Memorandum dated July 2, 2003, indicating the application was deemed complete on June 19, 2003, and published pursuant to North Dakota Administrative Code Section 13-02-05-05.1 in the *Bismarck Tribune* on June 18 and 25, 2003. The comment period expired July 9, 2003, and direct notice was provided to 15 area banks.

North Dakota Century Code Section 6-03-13.3 sets forth the criteria the Board must consider in determining whether to approve an application. Also North Dakota Administrative Code Chapter 13-02-05 sets forth the requirements for providing an application to the Department and the State Banking Board. The Department has determined that the applicant has complied with all the requirements of the North Dakota Administrative Code, and deems the application complete. The projections included in the application forecast that the applicant would achieve \$312,500 in deposits the first year and grow to \$10 million in deposits at the end of the third year. Total loans for the first year are estimated to

be \$350,000, and to increase to \$10 million at the end of the third year. As of April 30, 2003, the applicant had \$62,911,000 in total assets of which approximately \$15 million was in securities and \$42 million in loans. The bank also reflected \$4,818,000 in capital or approximately 7.6% of total assets, not including the allowance for loan losses of approximately \$471,000. The applicant proposes that Paul Bakkum, President of Northland Financial, would be the proposed manager of the facility initially. The bank anticipates hiring six full time positions which would include a loan officer, teller, personal banker, receptionist, and customer service representatives.

The application indicates the additional business activity generated from the proposed facility as indicated in the financial projections would have only minimal, if any, impact on existing financial institutions conducting business in the proposed trade area. Management does not believe approval of the application would seriously injure any other banks. Additionally, management believes that Northland Financial's commitment to better serve its existing customer base in the area will offset any potential negative impact to other banks resulting from the approval of the proposed facility. The proposed facility is an existing building with approximately 19,500 square feet located in a two-story building, and Northland Financial plans to lease 6,000 square feet on the second floor. The terms of the lease agreement are included in the application. The applicant estimates the range for capital costs of the proposed facility for construction and renovation to be \$100,000 to \$150,000; security equipment to be \$10,000 to \$20,000; and other furniture and fixtures to be \$40,000 to \$80,000. The applicant states the total investment in fixed assets to total capital will approximate 18.25%, which is well within the guidelines set forth in the North Dakota Century Code.

The applicant sets forth the convenience and needs criterion in Exhibit 6 of the application and believes they can enhance the convenience and needs of customers desiring banking services in Bismarck and Burleigh County. The applicant also believes the convenience and needs of its present customers will be further met by a location in Bismarck. The Exhibit also provides great detail regarding population data and business opportunities, and the Department feels the applicant has met the convenience and needs criterion for purposes of the North Dakota Century Code.

In reviewing the proposed projections as of December 31, 2003, through 2007, the Department feels the projections are accurate and approval of this facility

would not have a major impact on the overall financial condition of Northland Financial.

Chairman Karsky asked President Bakkum if he had any comments in support of the application. President Bakkum indicated the bank has, in its strategic planning, for several years looked at the demographics for Kidder and Steele Counties, and the projected demographics for rural counties are not improving. President Bakkum indicated in trying to project forward 10 or 20 years and forecast what they are going to be looking at for a customer base for their existing locations in Steele and Medina, they concluded the logical location for expansion would be Bismarck. President Bakkum indicated the western part of their trade territory is in Burleigh County, which is right next to Bismarck. President Bakkum stated with dual income households it is not uncommon for one of the individuals to be employed in Bismarck and also that there are retirees looking at retiring in Bismarck for medical reasons. Over the last 10 years President Bakkum estimates 3 out of 10 graduating high school students locate in Bismarck for further education and remain living in Bismarck. The proposed facility would assist Northland Financial in retaining those customers relocating to Bismarck, and enable them to expand their western trade territory beyond Bismarck. President Bakkum indicated at the end of the month MedCenter One will be closing its clinic in Steele, which is another reason people from the bank's western trade area would travel to Bismarck rather than Steele.

Chairman Karsky asked Mr. Ereth if he had any additional comments, and Mr. Ereth stated he felt this was a natural extension of Northland Financial's existing trade territory, adding that it is truly a convenience for their existing customers rather than an attempt to grow and expand the bank.

After further discussion, **it was moved by Member Braseth, seconded by Member Monson, and unanimously carried to approve the application by Northland Financial, Steele, to establish a facility at 207 Front Avenue, Bismarck, as well as the proposed Order.**

Paul Bakkum and Dana Ereth left the meeting at 9:52 a.m.

The Board took a break at 9:52 a.m. and reconvened at 10:00 a.m.

Tim Siegle and Tim Horpedahl joined the meeting at 10:00 a.m., along with Fred Manuel via telephone.

UNITED VALLEY BANK, CAVALIER, APPLICATION TO ESTABLISH A FACILITY AT 200 1ST AVENUE NORTH, GRAND FORKS

Assistant Commissioner Entringer reviewed his Memorandum dated July 2, 2003, indicating the application was received on June 2, 2003, and was published pursuant to the North Dakota Administrative Code in the *Cavalier Chronicle* on June 4, 2003, and the *Grand Forks Herald* on June 5, 2003. Direct notice was provided to 15 area banks with the comment period ending July 3, 2003. The Department did not receive any comments as of the date of the Memorandum or any requests for copies of the application. North Dakota Century Code Section 6-03-13.3 sets forth the criteria for the Board to consider as to whether an application should be approved.

The first criterion deals with convenience, needs, and welfare of the people and community area served. The applicant notes the proposed location is intended to serve the Grand Forks and East Grand Forks communities primarily in the downtown area. The applicant currently has a location in Grand Forks and is familiar with the banking and business climate in the trade area. The applicant has had personal contact with business leaders and potential customers and is confident the area is in need of an independent North Dakota bank based on those contacts. The application included nine letters of support from downtown community businesses and potential customers, as well as a traffic study which shows over 10,000 vehicles per day pass within several blocks of the proposed location and 2,500-3,700 pass within the immediate area.

The second criterion relates to the financial strength of the bank in relation to the cost of establishing and maintaining such separate facility. The proposed facility will be leased, a copy of which is included in the application. The lease would be \$1,425 per month, or \$17,100 annually. Management estimates a 5% growth factor and income and expenses are expected to be more competitive in the Grand Forks market and therefore slightly below other locations; salary and benefits, occupancy expense and other operating expenses do not appear to be out of line with the historical bank performance; the allowance for loan and lease losses is viewed as an entity rather than branch specific. Overall the projections indicate net operating losses for the three year projection; however, the bank's primary capital ratio is expected to be maintained above 8% and the bank will remain in the "well capitalized" category throughout the projection period. The return on assets and equity show growth through the projection period and appear

satisfactory. The Department feels the applicant has demonstrated financial strength in relation to the cost of establishing and maintaining this facility.

The third criterion is whether other banks would be seriously injured by approval of the application. The applicant indicates they believe approval of the application will have minimal, if any, impact on financial institutions in the trade area and that these banks will not be seriously injured by approval of the application. As noted earlier, no opposition to the application was received.

Mr. Manuel indicated under Tab 9 of the application the FDIC has indicated they would approve the application with several conditions, one of which is that the state approves the proposed facility. Mr. Manuel indicated this is a niche facility which will concentrate on the downtown area and will expand the bank's current base of customers to a location which was most recently a Bremer bank branch. Mr. Manuel noted this area of downtown Grand Forks was significantly impacted in 1997 by the flood and it is truly a construction zone as rebuilding continues in that area. Also, Mr. Manuel notes that one of the supporters of the application states there is significant growth in the downtown area although there are no banks to serve that area of the community. Mr. Manuel indicated the projections do not indicate significant growth for the bank throughout the next three years, although the bank will provide a service to a niche community. Mr. Manuel indicated the projected income will be a challenge because of the growth that is projected and they feel it will almost be to a breakeven point at the end of three years. Mr. Manuel stated in regard to serious impact to any other banks, the projected assets for the bank as a percentage of total assets for the Grand Forks market will not be significant enough to impact any bank in the market. Mr. Manuel stated he believes the applicant has met the three statutory criteria.

President Siegle indicated it has been 4½ years since the bank entered the Grand Forks market and has been received very positively; however, it was time to survey the community and see where they needed to go from here. The analysis and discussion led them to believe that strategically it made sense to go into the downtown area.

Branch President Horpedahl indicated the branch manager is Randy Keegan and he has 22 years of banking experience in Grand Forks. Branch President Horpedahl indicated the building is currently being fitted and since it was previously operated as a bank, there is a vault and drive-up lane. Branch President

Horpedahl indicated their currently existing business customers in the downtown area, as well as non-customers, are excited about the facility.

After further discussion **it was moved by Member Moldenhauer, seconded by Member Zeltinger, and unanimously carried to approve the application by United Valley Bank, Cavalier, to establish a facility at 200 1st Avenue North, Grand Forks, and to approve the proposed Order.**

ARTICLES OF AMENDMENT – UNITED VALLEY BANK, CAVALIER

Chairman Karsky reviewed the Articles of Amendment to change the number of directors of United Valley Bank from 6 to 8. **It was moved by Member Monson, seconded by Member Daniel, and unanimously carried to approve the Articles of Amendment for United Valley Bank, Cavalier, to change its number of director from 6 to 8.**

Fred Manuel, Tim Siegle, and Tim Horpedahl left the meeting at 10:18 a.m.

Lynn Paulson joined the meeting at 10:19 a.m.

CHOICE FINANCIAL GROUP, GRAFTON, APPLICATION TO ESTABLISH A FACILITY AT 1697 SOUTH 42ND STREET, GRAND FORKS

Chief Examiner – Banks Jungman reviewed his Memorandum with the Board, detailing the three criteria for approval of the facility application: the convenience, needs, and welfare of the people of the community and area served; the financial strength of the bank in relation to the cost of establishing and maintaining such separate facility; and whether other banks will be seriously injured by approval of the application.

Chief Examiner – Banks Jungman indicated the applicant's response to the convenience, needs, and welfare criterion is located at the top of page 4 of the application, and in addition Chief Examiner – Banks Jungman included a quote from the October 2002 report prepared by Ecomony.com, as well as a quote from the Grand Forks Economic Development Corporation's website which notes that Grand Forks is ranked as one of the best places to do business in the U.S. by

Forbes/Milken. In addition, the application contains 10 letters of support for the proposed facility.

In reference to the second criterion Chief Examiner – Banks Jungman noted the yearend Uniform Bank Performance Report notes the bank was profitable for the year 2002, and that for the three previous years the bank has shown a profit with return on average assets reaching a high of 1.22% in 1999. The bank had average assets of \$168,759,000 as of yearend 2002, with average earning assets equaling 93.58% of average assets, which is 75 basis points above the peer group. The projections included in the application show that an additional \$2.5 million will be expended to acquire the land and construct a building, as well as parking lot improvements which will raise the bank's investment in fixed assets to 33.6% which is well below the legal maximum of 65%. The proposed management of the facility is Todd Innes and his profile is included on page 7 of the application. Chief Examiner – Banks Jungman indicated with respect to the financial strength of the bank he did not see anything in the application or report which would give the State Banking Board reason to deny this application.

In reference to the third criterion Chief Examiner – Banks Jungman noted the applicant lists 10 other FDIC insured financial institutions with a combined total of 24 separate locations in the market area. In addition with the combination of Grand Forks County and Poke County (Minnesota) there are 18 banks with 40 locations, for a total deposit base of \$1,153,467,000 as of June 30, 2002. Additionally, there are six credit unions in the Grand Forks community with combined total deposits of \$42,996,676. The application shows that at the end of the first year of operation total deposits would be \$8.5 million and at the end of the third full year total deposits are expected to be \$24,600,000. Based on that information, it can be concluded that this application would have little, if any, adverse effect on other banks in the market area.

Chief Examiner – Banks Jungman called the Board's attention to Section 8 of the application, Relationships and Associations with the Bank. This Section notes the bank would be purchasing the property from an insider and a copy of the Purchase Agreement is included in the application. Johnson Farms is the current owner of the property, and Burt and Roger Johnson are officers and directors of the bank, as well as partners in Johnson Farms. Also, Lyle Johnson is a principal shareholder of the holding company. The purchase agreement states the property will be purchased at the lower of \$655,337 or the appraised value of the property as determined by Appraisal Services, Inc., a non-affiliated company from Fargo.

According to CEO Paulson, the purchase of the land was approved by the Board in the absence of the interested parties.

Chairman Karsky asked CEO Paulson if he had comments in support of his application. CEO Paulson indicated, as Chief Examiner – Banks Jungman had discussed, the land was being purchased from an insider for the purchase price mentioned and that the appraisal came in at \$785,000, so the bank was purchasing the property for \$100,000 under the appraised value. CEO Paulson indicated that \$2.5 million is a pretty firm estimate for the total cost of the project, and that the bids have been let and would be open in a week from today. CEO Paulson indicated the manager of the location, Todd Innes, is a Grand Forks native who was working in Boulder, CO, and that Innes is a well known name in the area. CEO Paulson stated that Mr. Innes has worked a lot at credit, and felt he would fit well in the bank's management team. CEO Paulson indicated they did not commission a formal feasibility study, but for approximately the last year they have been canvassing shareholders and customers in the Grand Forks market, and have no doubt this is a good move for the bank. CEO Paulson indicated as far as size and profitability of the bank, the bank currently exceeded \$190 million in total assets and the pretax net income as of June 30, 2003, is \$2 million.

Chief Examiner – Banks Jungman indicated based on the information contained in the application along with supplemental information in his Memorandum, as well as a review of the legal requirements for this application, the Department recommends approval of the establishment of this facility.

It was moved by Member Braseth, seconded by Member Moldenhauer, and unanimously carried to approve the application by Choice Financial Group, Grafton, to establish a facility at 1697 South 42nd Street, Grand Forks, and to approve the proposed Order.

COMMERCIAL BANK OF MOTT, MOTT – ARTICLES OF AMENDMENT TO RELOCATE MAIN OFFICE

Assistant Commissioner Entringer noted the Board had previously approved a relocation for the Commercial Bank of Mott from 224 Brown Avenue to 305 Brown Avenue; however, they have reviewed the lot size and their architectural firm has determined that the location at 325 Brown Avenue better suits the size and

need for the new location; therefore, the bank has asked the Department and State Banking Board to amend its approval to 325 Brown Avenue.

It was moved by Member Monson, seconded by Member Zeltinger, and unanimously carried to approve the Articles of Amendment for the Commercial Bank of Mott to relocate from 225 Brown Avenue to 325 Brown Avenue, and also approving the Order.

ITEMS TO BE NOTED

A. Comptroller of the Currency

Bremer Bank, NA, Grand Forks, closed its branch at One Main Street, Forest River, North Dakota, effective 5-31-03.

U.S. Bank, National Association, Cincinnati, OH, to merge with U.S. Bank, National Association North Dakota, Fargo, North Dakota, received May 12, 2003,

DISCUSSION ITEM

Chairman Karsky noted the Order regarding Dean Hayek has been finalized and he has now been removed from state-chartered banking institutions including money brokers for a period of three years.

The Board went into closed session at 10:37 a.m.

Timothy J. Karsky, Chairman

Robert J. Entringer, Secretary